

FACTSHEET

FEBRUARY 2023



Renaissance Investment Managers

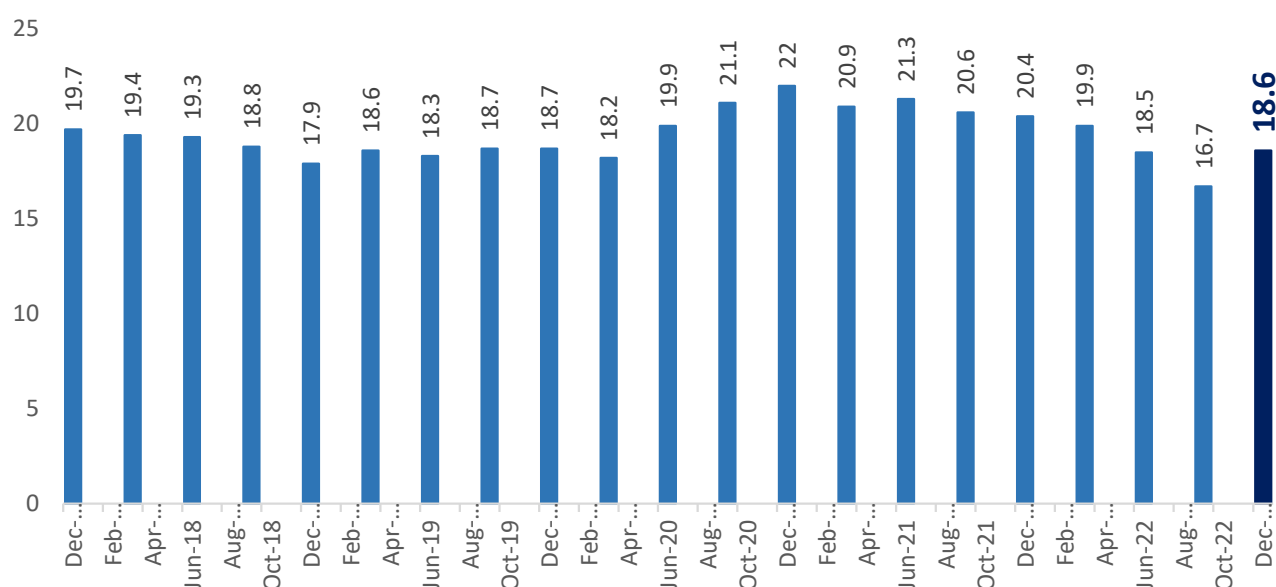
Dear investors,

Sedate quarterly performance + Global uncertainty

Corporate earnings for Dec-22 quarter was broadly in line with consensus estimates. Nifty50 Index reported a revenue growth of ~19% YoY (~1% QoQ growth), largely driven by strong performance from domestic oriented businesses. On the positive side, Financials continue to remain the bright spot while commodities (Metals, Oil & Gas) were a drag on overall earnings. A common theme across the earning season was the demand slowdown post the festive season. While rural demand was anyways subdued, urban demand also witnessed some sluggishness. Consequently, there has been marginal cut of ~1% in NIFTY EPS estimates over the last 2-3 months.

Post the breakout of Russian Ukraine conflict, commodity prices across the board had spiked up, thereby negatively impacting EBITDA margins of Corporate India. With the cool off in commodity prices, EBITDA margins improved in the Dec-22 quarter (refer chart below). We believe, only part of the benefit was evident in Dec-22 quarter and there are further tailwinds to EBITDA margins that should be visible in Mar-23E quarter.

Nifty EBITDA margin (excluding Financials) contracts 180bp to 18.6% YoY

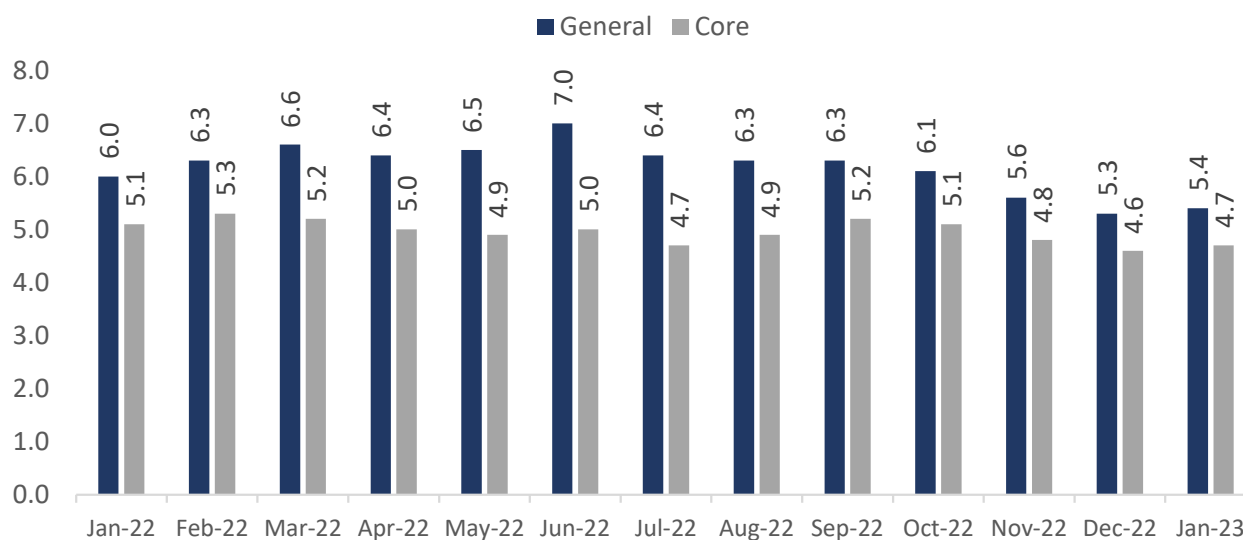


Source: Broker notes

From the global macro standpoint, the recent reading on personal consumption expenditures (PCE) price index has really threw a spanner in the works. While the recent reading of 4.7% is well below the Jun-22 highs, it has been stubbornly stuck at around these levels. Importantly, there has been a month on month increase of ~0.6%. US Fed relies highly on the PCE data. Given US Fed's commitment to price stability and getting inflation back down to 2%, it has no choice but to raise interest rates further. This increases the risk of the so called "hard landing" and hence the markets have been jittery over the last 1 month.

Increase in interest rates in US could potentially mean higher interest rates in India as widening interest rate differential could cause havoc in the currency markets. RBI being cognizant of this fact, had already proactively increased repo rate in 2022. In this backdrop, it is likely that markets would remain choppy in over the next 2-3 months until greater clarity emerges on the inflation trajectory going ahead.

US PCE (personal consumption expenditure) Price Inflation (%)



Despite the short-term challenges, we feel very confident on the long term growth outlook of our economy. As we have highlighted earlier, we see a recovery in capex cycle led by multiple factors like government infra spend, China+1, and PLI scheme amongst others. The initial green shoots of this are visible in the quarterly results of leading capital goods companies like L&T, Cummins, ABB and Siemens. A manufacturing driven economic recovery is far more secular in nature, as it generates employment opportunities not only for skilled labour but also for semi-skilled/ unskilled labour. This is similar to what we witnessed over the 2003-07 period. Consequently we continue to position our portfolios towards growth oriented businesses and more importantly towards companies which have strong balance sheets and cash flows. During the course of 2023, as inflation concerns abate gradually, we believe growth would be far more pronounced. In this backdrop, we believe our portfolios are well positioned to deliver superior adjusted returns.

Happy investing!

Pawan Parakh

Portfolio Manager

Investment Strategy

Dynamic Thematic Portfolio

Theme 1

India Economic Recovery (19th April 2018 to 15th June 2022)

Theme 2 (Current Theme)

Growth & Income

Growth



Income

SUSTAINABLE QUALITY GROWTH AT REASONABLE PRICE

- ❑ Indian GDP growth of 7% in next 3 years
- ❑ Focus on investing in growth sectors
 - ✓ Consumer Discretionary
 - ✓ Capital Goods
 - ✓ Financials
 - ✓ IT & Retail

INFLATION HEDGE

- ❑ Focus on Income Yields
- ❑ Business with strong pricing power
 - ✓ Utilities
 - ✓ Telecom
 - ✓ Pharmaceuticals
 - ✓ Real Estate

Portfolio Capitalization

68.67% 13.43% 17.80% 0.00

■ Large Cap ■ Mid Cap ■ Small Cap ■ Cash

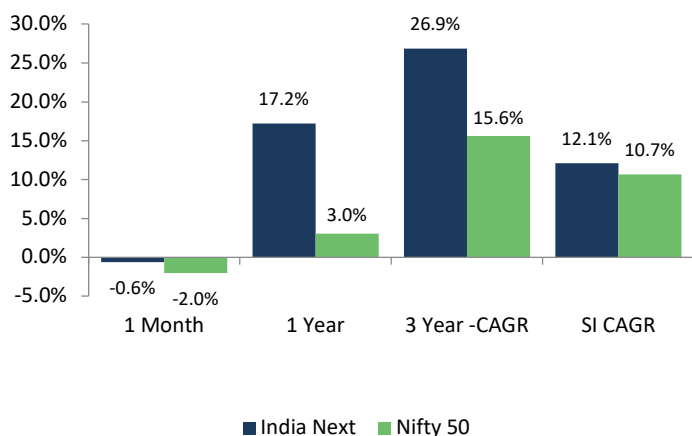
Top Holdings

Company	Weight(%)
ITC	9.28%
State Bank of India	7.35%
ICICI Bank	7.27%
HDFC Bank	6.16%
Sun Pharmaceuticals	5.47%

Sectoral Weights

Sector	Weight(%)
Banks & Finance	27.44%
Capital Goods & Engineering	22.55%
IT Consulting & Software	13.40%
Pharmaceuticals	11.14%
FMCG	9.28%

Returns



* Returns are for all clients on TWRR basis

Returns



Investment Philosophy

Sustainable Quality Growth At Reasonable Price (SQGARP)



Sustainability

Companies with sustainable and durable business models.



Quality

Superior quality businesses as demonstrated by Competitive edge, Pricing power, ROE, FCF.
Good quality and competent management teams.



Growth

Business that can deliver superior growth over medium term to long term.



Price

Ability to invest at reasonable valuations. Fair value approach to valuations.
Focus on economic value of business.

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